

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC PRIORITY 6747

INFO AMEMBASSY ALGIERS

AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L BONN 19035

E.O. 11652: GDS

TAGS: ENRG, GW, FR, SZ, AU, BE

SUBJECT: EUROGAS I CONSORTIUM AT THE CROSSROADS

REF: A. BONN 16742; B. BONN 17973

1. ACCORDING TO AN ECONOMICS MINISTRY SOURCE, THE EUROGAS I CONSORTIUM IS AT A CROSSROADS. THE THREE GERMAN GAS FIRMS ALONG WITH THE FRENCH, BELGIAN AND SWISS FIRMS WILL MEET DECEMBER 12 TO DECIDE ON THE FUTURE OF THE CONSORTIUM.

2. THERE ARE APPARENTLY THREE ALTERNATIVES UNDER SERIOUS CONSIDERATION. THE FIRST IS TO CONTINUE THE NEGOTIATIONS WITH THE ALGERIANS UNDER THE EXISTING CONCEPT, I.E., MAINTENANCE OF THE 42 CENT PRICE, WITH THE EUROPEAN FIRMS PROVIDING THE FINANCING.

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THE SECOND ALTERNATIVE WOULD BE TO SCRAP THE OLD

CONTRACT AND START NEGOTIATIONS ANEW ON THE BASIS OF A NEW PRICE AND WITH THE EUROPEAN FIRMS HAVING NO RESPONSIBILITY FOR FINANCING. THE THIRD ALTERNATIVE IS TO POSTPONE THE DECISION. ACCORDING TO OUR SOURCE, IF THE MAJORITY OF THE FIRMS FAVOR THE FIRST ALTERNATIVE, TWO OF THE THREE GERMAN FIRMS, BAVARIAN AND SOUTH GERMAN GAS, AS WELL AS THE AUSTRIAN FIRM WILL LEAVE THE CONSORTIUM BECAUSE OF THE HIGH FINANCING COSTS AND ABANDON THEIR INTEREST IN THE PROJECT.

3. OUR SOURCE CONSIDERS THIS FIRST ALTERNATIVE THE MOST LIKELY OUTCOME OF DECEMBER 12 MEETING. THE FRENCH AND THE BELGIAN FIRMS ARE BOTH GOVERNMENT-OWNED AND SUBSIDIZED AND SECURE SUPPLIES OF GAS APPEAR MORE IMPORTANT THAN A LOWER PRICE. THE THIRD GERMAN FIRM, SAARLAND GAS, IS EXTREMELY SHORT OF GAS AND CONSEQUENTLY IS PREPARED TO PAY A SOMEWHAT HIGHER PRICE. OUR SOURCE EXPECTS THE ATTITUDE OF THE FRENCH FIRM TO BE DECISIVE AND HE FEARS THEY ARE WEAKENING IN THE FACE OF "POLITICAL CONSIDERATIONS."

4. THE GERMAN GOVERNMENT IS IN A SOMEWHAT DELICATE SITUATION DUE TO THE CONFLICTING POSITIONS OF THE PARTICIPATING GERMAN GAS FIRMS. IT HAS A MAJOR INTEREST, HOWEVER, IN SEEING THE PRICE OF THE GAS KEPT AS LOW AS POSSIBLE. SINCE GOVERNMENT GUARANTEES ARE A SINE QUA NON FOR THE PROJECT, IT ALSO HAS SOME INFLUENCE IN THE NEGOTIATIONS. OUR SOURCE REMARKED THAT THE ATTITUDE OF EL PASO IN ITS SEPARATE NEGOTIATIONS WITH THE ALGERIANS WOULD BE AN IMPORTANT FACTOR IN THE TOUGHNESS OF THE ALGERIAN POSITION VIS-A-VIS THE EUROPEANS.

5. COMMENT: IT STRIKES US THAT BOTH THE FRG AND THE UNITED STATES AS MAJOR ENERGY IMPORTING NATIONS HAVE A COMMONALITY OF INTEREST IN SEEING THE ALGERIAN GAS PRICE KEPT AS LOW AS POSSIBLE. IT MAY, THEREFORE, BE USEFUL FOR OUR TWO GOVERNMENTS TO COORDINATE THEIR POSITIONS WITH RESPECT TO THE

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ALGERIAN GAS NEGOTIATIONS. WE WOULD WELCOME ANY INFORMATION WE COULD PASS ON TO THE FRG ABOUT

THE STATUS OF THE EL PASO NEGOTIATIONS AND THE
ATTITUDE OF THE USG TOWARD THEM.
HILLENBRAND

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